Holding insurance sector accountable for their impact on the environment, society, and corporate governance practices through regulation

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CORE VALUES: Integrity, Collaboration and Excellence

Presentation Outline

Content	
	1. Introduction- Does sustainability matters
	2. Policies in place to support sustainability
	3. BNR actions as a regulator
	4. Trends- Investments opportunities
	5. Brokers and ESG
	6. Current principles for reference

❖ 1. Introduction- Does sustainability matters?- challanges

The Paris agreement of 12 Dec 2015 on climate change aims at:

- Limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C,
- Strengthening countries' ability to deal with the impacts of climate change and support them in their efforts.
- Rwanda Signed , 22 April 2016

- By the year 2050, without new policies the global greenhouse gas emissions projected to increase by 50%,
- The atmospheric concentration of greenhouse gas could reach 685 parts per million (ppm) CO_2- equivalent,
- The global average temperature is projected to be 3°C to 6°C above pre-industrial levels limit of 2°C. (OECD, 2022)

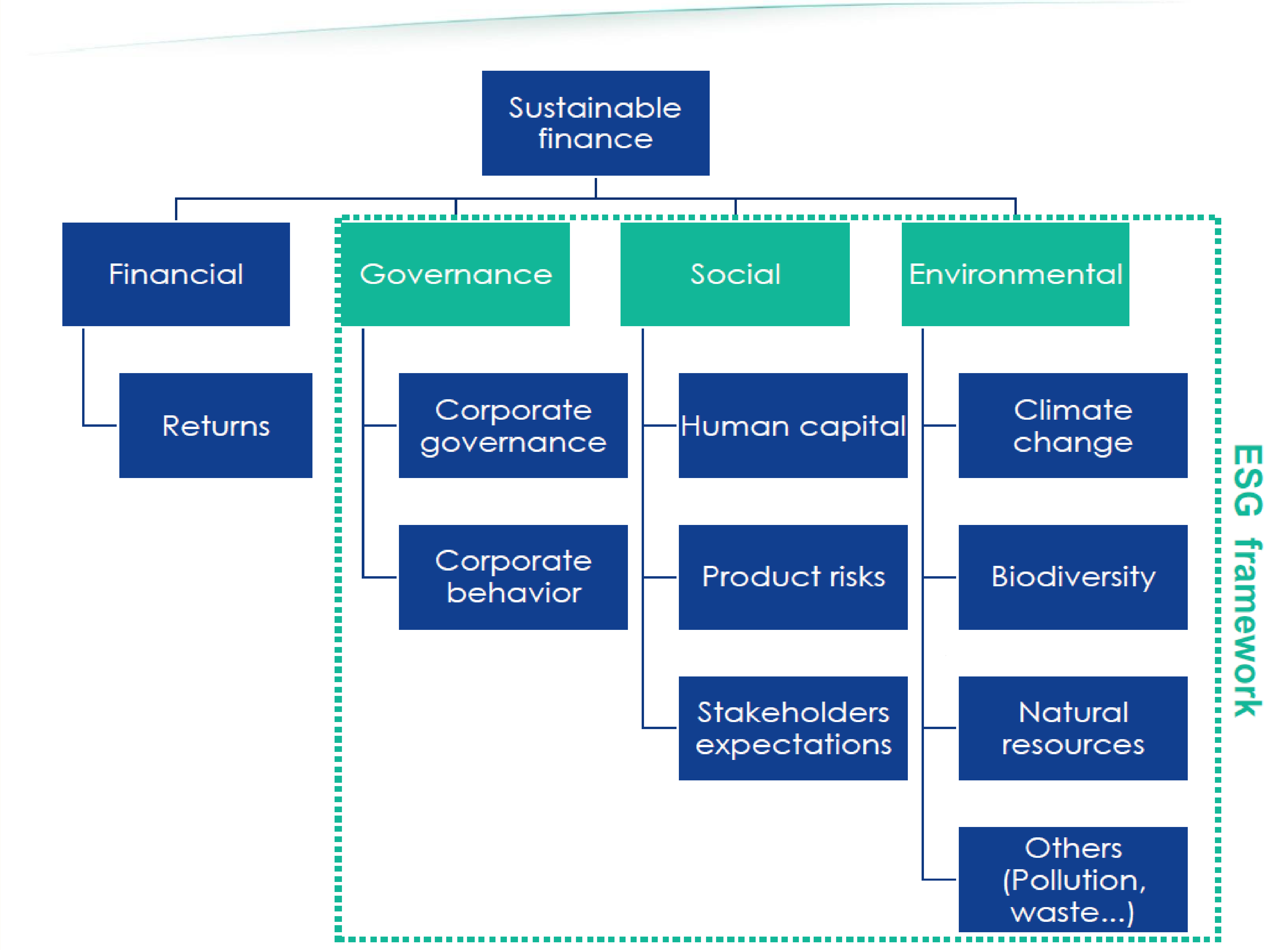
❑The USAID report summarized also the variability of climate variables by the year 2050 in Rwanda as following:

- The average annual temperature expected to increase by 64.2%(0.9°C) from 1.4 to 2.3°C,
- The average rainfall (range of -3 to +9 percent),
- The increase of heavy rainfall event frequency (7–40 %) and intensity (2–11%), and
- the likely increase in the duration of dry spells with a range of 0 to +7 days.

- Additional net economic costs (on top of existing climate variability) could be equivalent to a loss of almost 1% of GDP each year by 2030 in Rwanda.
- In 2018, climate related disasters cost Rwanda more than 200 million dollars in damage to property, crops, livestock and other losses.

1. Sustainable Finance -*What is does sustainability finance mean?*

Finance meeting sustainability The 4 pillars of sustainable finance

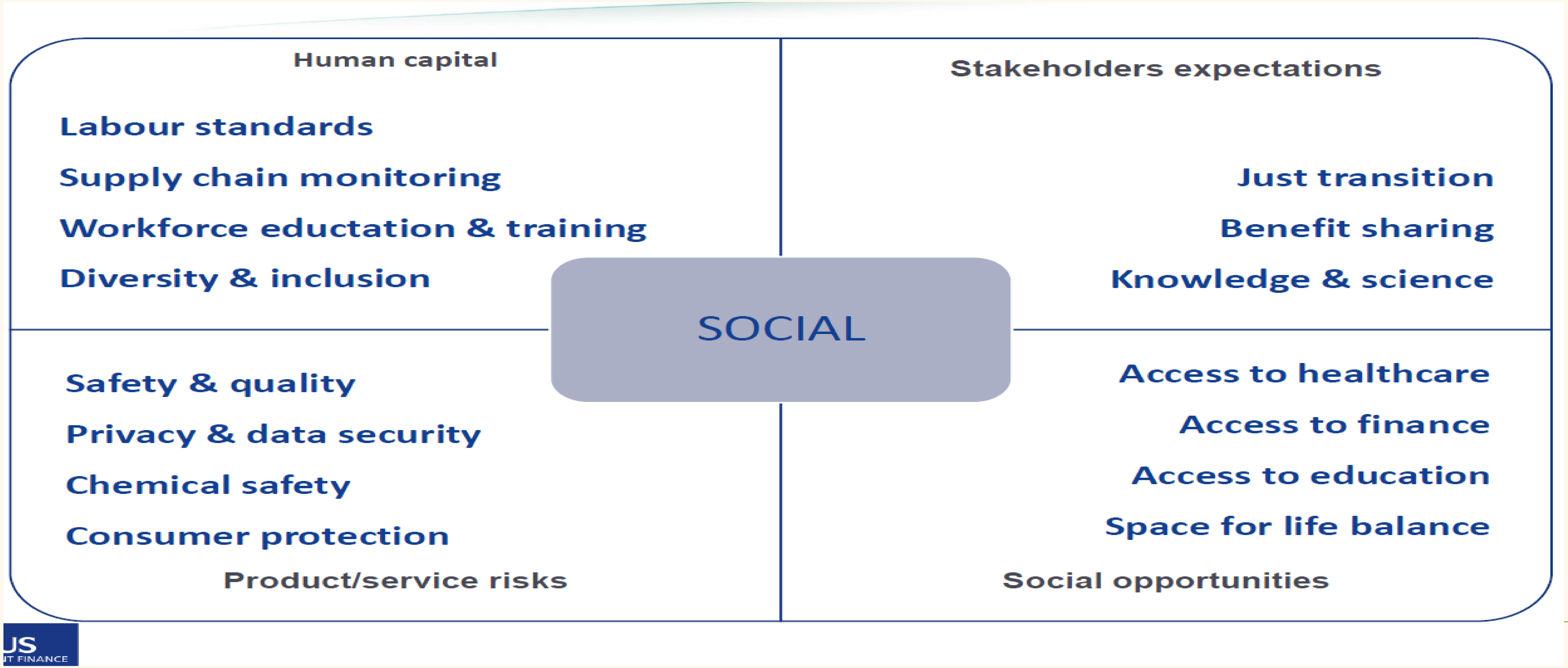


- "G" the governance pillar: The elephant in the room

Corporate Governance	**ESG oversight** board structure **Director independence** in addressing ESG risks **Executive remuneration** consistent with ESG objectives **Shareholders rights** regarding ESG risks information **Internal control** and accountability on ESG related outputs
Corporate Behaviors	**Business ethics** regarding ESG strategic alignement **Tax** honnesty and regulation compliance **Bribery & corruption** scrutinity and whitleblowing **Controversial practices** avoidance

1. Sustainable Finance-*What is does sustainability finance mean?*

❑"S", the social pillar A human-centered approach- Social Responsability



1. Sustainable Finance- What is does sustainability finance mean?

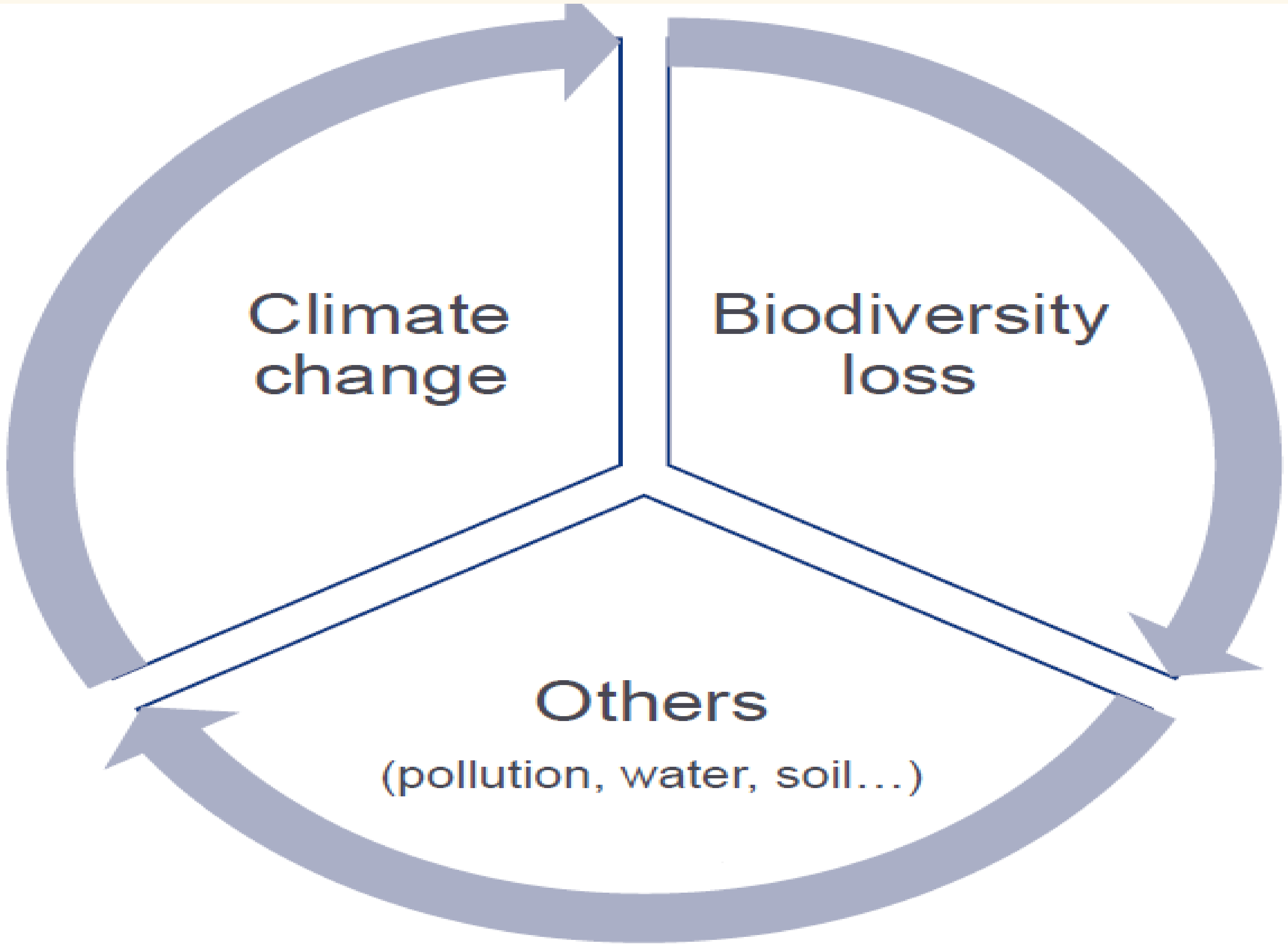
❑«E», the environmental pillar- Ending the era of free extraction

Part of the complexity of the problem comes from **the domino effect** between 3 **interconnected domains**

- **Biodiversity**
- **Climate change**
- **Others (pollutions, water, soil…)**

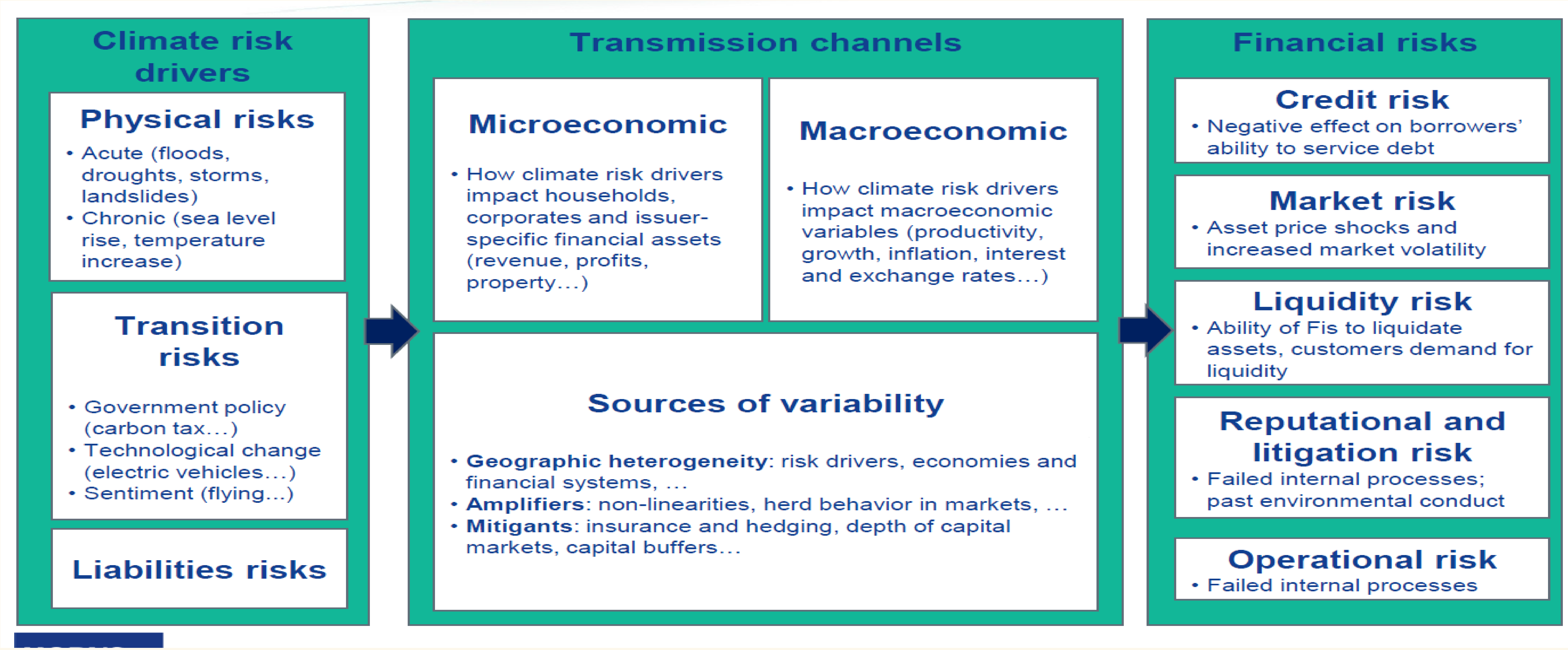
Our economies are mainly based on **extracting** from the environment **and throwing back** once used.

We now need to look for a completely **different approaches** (e.g, circular economy, regenerative process, nature-based solutions…)



2. - Why Regulators concerned?

- ❑Climate-related and environmental financial risks and their transmission mechanism



2. POLICIES IN PLACE TO SUPPORT SUSTAINABILITY

National Determined Contributions(NDC)

The document sets a path for ambitious climate action and allows organizations, individuals, and communities to see where their efforts fit within the national and global strategies needed to address the biggest challenge of our time.

https://climatechange.gov.rw/index.php?id=15

TAXONOMY

- Rwanda's Green Taxonomy is a framework that aims to define sustainability criteria, foster shared understanding and trust on what constitutes a green investment, as well as prevent greenwashing.
- Rwanda Taxonomy Working papers
- rwandagreentaxonomy (minecofin.gov.rw)

BNR GUIDELINES-

- These guidelines aim at:
- Providing guidance to financial institutions on the components of climate-related and environmental financial risks;
- Setting out principles that guide financial institutions to manage and mitigate Climate-related and environmental financial risks through the entire risk management cycle; and
- Providing guidance on disclosure of Climate-related and environmental financial risks.
- https://www.bnr.rw/SustainableFinance

3. BNR ACTIONS- BNR DIAGNOSTIC REVIEW FINDINGS

- Diagnostic review on NBR's institutional framework and regulated institutions capabilities to implement Sustainable Finance Requirements.

	Advanced	No or Very few advancement	Some advancement	
	Governance	Strategy	Risk management	Metrics and targets
Banks				
Insurance companies				
MFIs				

BNR GUIDELINES ON CLIMATE RELETATED AND ENVMNTAL RISK MANAGEMENT’

❑ Scope of application

- include a bank, a deposit-taking microfinance institution, an insurer, a pension scheme and a non-deposit taking financial service provider that grant or provides loans or similar services or products;

❑ Understanding the exposures and vulnerability

Materiality assessment

- assess and determine the materiality of climate-related and environmental financial risks within their operations and activities, considering the potential impact on financial performance, reputation, and overall risk profile, with factors such as risk magnitude, likelihood, etc…

Business environment

- the financial institution shall take into account geographic location, sectors of economic activities, products, nature of business operations and risk management.

BNR- GUIDELINE -GOVERNANCE & RISK MANAGEMENT

- Governance

01 Board of Directors

- to ensure that climate-related and environmental financial risks are discussed at full board or board committee meetings;
- to ensure the collective understanding of these risks by the board and senior management;
- Approve and periodically review the strategy and risk management framework;
- Define clear responsibilities for addressing climate-related financial risks & timely reporting of these risks
- Integration of risk in RAS, Strategy, objective and maintaining effective oversight

02 Senior management

- Establish written policies and processes for proactive management of these risks.
- Periodically assess the effectiveness of the framework, policies, tools, and controls;
- Provide the board with periodical reports on these risks and the effectiveness of the framework.
- Allocate adequate resources and define requirements for internal structures handling these risks,
- Ensure that material climate-related financial risks are addressed promptly.

03 Internal Control Functions

First line of defense

- During client on-boarding, relevant staff should possess adequate awareness and understanding.
- They must be capable of identifying and assessing potential climate-related financial risks.

Second line of defense

- Oversees climate-related financial risks in business activities, continuous risk monitoring, and policy reviews.
- Conducts independent climate risk assessment and monitoring.
- Challenge evaluations made by owners and ensure adherence regulations and internal policies..

Third line of defense

- Responsible for providing assurance and periodic audit evaluations.
- Focuses on the effectiveness of the institution's climate-related financial risk management (both the first and second lines of defense).

GUIDELINE: GOVERNANCE & RISK MANAGEMENT, Cont’

❑ Risk management

- Risk management framework

Risk monitoring

- Monitoring at portfolio level
  - ✓ the percentage of exposures to high-risk sectors;
  - ✓ monitoring list of counterparties with high risk profiles at the counterparty level.
- Monitoring of exposure of operation to physical risks
  - ✓ early warning of operational risk concerns while monitoring the physical risk exposures
  - ✓ significant outsourced arrangements
- Continuous monitoring “Evolution of risks
- Capital and liquidity (ICAAP, ILAAP & ORSA)

❖ Physical and transitional risks for insurers

(a) physical Risk:

- Insurance risk: Excess (higher than expected) insurance claims pay-outs for damaged insured properties.
- Market risk: Fluctuation in equity values due to physical losses from flooding and business interruptions that negatively impact insurers' profitability.
- Operational risk: Physical damage to insurers' offices and the disruption of critical functions, namely underwriting, claims processing, and investment management.

(b) Transitional risk

- Insurance risk: potential unexpected underpricing of new insurance products covering green technologies due to data scarcity.
- Market risk: investment losses and reduced asset values due to stranded assets.

GUIDELINE-SCENARIO ANALYSIS & STRES TESTING

❶ Objectives of stress test

- explore the impacts of climate change and the transition to a low-carbon economy on the institution's strategy and the resiliency of its business model;
- identify relevant climate-related financial risk factors;
- measure vulnerability to climate-related financial risks and estimating exposures and potential losses;
- diagnose data and methodological limitations in climate risk management; and
- inform the adequacy of the institution's risk management framework, including risk mitigation options.
- Validation of risk identification process.

❷ Assessment of the vulnerability of institutional business models:

- the results of several transitional pathways and different channels including those through physical and transitional risks,
- the short, medium, and long-term time periods associated with Climate related and environmental financial risks,
- considering both historical data and forward-looking information, and
- evaluate how various scenarios may affect income, assets, counterparties, liquidity, and capital position levels.

❸ The BNR will define, provide and guide the market the applicable climate-related scenarios such as

- Variability in annual rainfall
- Temperature,
- Etc,,,

BNR – GUIDELINES- DISCLOSURE & REPORTING

01 Disclosure

In line with both TCFD and IFRS S1&S2 , FIs shall disclose in their annual report at least:

Governance

- governance procedures (overall responsibilities of senior management and board of directors.

Strategy

- climate related financial risk strategy, and
- the identified Climate related and environmental financial risks, opportunities and expected impacts on strategy and financial planning.

Risk management

- the procedures for identifying, assessing, and managing climate-related financial risks,
- the elements considered during the assessment of Climate related and environmental financial risks, and
- how the entire risk management framework incorporates the Climate related and environmental financial risks.

Metrics and Targets

- Key Risk Indicators (KRIs),
- the status of Key Risk Indicators against internal targets, and
- the methodologies, definitions, assumptions and other associated with metrics and target included in the disclosure.

02 Reporting

- Internal policy shall indicate timely submission to BoD & Senior Management/ Every six month,
- The level of compliance with RA & Implementation plan,
- the status of current risk exposure, opportunities, governance, strategy, risk management, data and metrics of no later than three months after the end of each year/BNR

GUIDELINES- SELF ASSESSMENT AND MONITORING

❑ Self-assessment

(1)The self-assessment report shall be submitted to NBR within the timeline set in the implementation roadmap _ **Where applicable**

i. Introduction:
ii. Establishing a Self-Assessment Team
iii. Scope and Objectives:
iv. Data Collection and Analysis
v. Risk Identification
vi. Risk Assessment and Scenario Analysis
vii. Stress Testing
viii. Mitigation Strategies
ix. Reporting and Disclosure
x. Review and Validation
xi. Integration with Governance and Strategy

❑ Monitoring the implementation plan

i. The guidelines will be implemented in phases
ii. NBR will take on the pivotal role of overseeing the adherence to and phased execution of these guidelines.
iii. This approach ensures a systematic and thorough implementation, contributing to enhanced financial stability, risk management, and regulatory compliance across the financial sector.

GUIDELINE- Roadmap for implementation

Tier 1: Banks, General and life insurance & Public Pension
Tier 2: Deposit Taking Microfinance companies, Umwalimu Sacco, Captive insurers, Micro insurers, Private pension schemes
Tier 3: Non Deposit Taking Financial Service Providers, Deposit-taking Microfinance cooperatives, Mutual Insurers and Health Management Organizations

Phases	March - 24	Oct-24	Jan-25	Apr-25	Jan-26	Apr-26	Sept-26	Jan-27	Apr-27	Dec-27
Governance, Strategy and risk management	Establishment of a dedicated team/staff to follow up implementation of the guidelines (Immediate for All institutions)									
	Capacity building_ (Immediate & continuous for All institutions)	Submission of self-assessment results to National Bank of Rwanda (Tier 1)	Submission of self-assessment results to National Bank of Rwanda (Tier 2)	Submission of self-assessment results to National Bank of Rwanda (Tier 3)	Submission of self-assessment results to National Bank of Rwanda (Tier4)					
	Commencement of Data collection & Initial Self-Assessment of climate-related & environmental financial risks (All institutions)									
				Integration of climate related and environmental financial risks in the institution's governance, strategy, and risk management (Tier 1)	Integration of climate related and environmental financial risks in the institution's governance, strategy, and risk management (Tier 2)	Integration of climate related and environmental financial risks in the institution's governance, strategy, and risk management (Tier 3)		Integration of climate related and environmental financial risks in the institution's governance, strategy, and risk management (Tier 4)		
							Scenario analysis and stress testing (Tier 1)		Integration of risks in ICAAP*, ILAAP** & ORSA*** (Tier 1)	
Reporting & Disclosure						Reporting & Disclosure as per the requirements of these guidelines (Tier 1)		Reporting & Disclosure as per the requirements of these guidelines (Tier 2)	Reporting & Disclosure as per the requirements of these guidelines (Tier 3)	Full implementation of the guidelines (Where applicable)

*Internal Capital Adequacy Assessment Process / **Internal Liquidity Adequacy Assessment Process / *** Own Risk and Solvency Assessment

5.TRENDS- INVESTMENTS OPORTUNITIES

Green bond	**Green bonds are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible green projects (see use of proceeds section below) and which are aligned with the four core components of the GBP.**
Social bond	Social bonds are any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible social projects (see use of proceeds section) and which are aligned with the four core components of the SBP.
Sustainability bond	Sustainability bonds are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance a combination of both green and social projects. Sustainability bonds are aligned with the four core components of both the GBP and SBP with the former being especially relevant to underlying green projects and the latter to underlying social projects.
Sustainability-linked bond	Sustainability-linked bonds (SLBs) are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability/ ESG objectives. In that sense, issuers are thereby committing explicitly (including in the bond documentation) to future improvements in sustainability outcome(s) within a predefined timeline. SLBs are a forward-looking performance-based instrument.

4. Brokers concerned about ESG?

Environmental

Imagine the stress you can have if your clients are damaged by extreme weather, floods or drought?

Do you advise your clients on this climate risks?

Social

How do you consider diversity and inclusion, social mobility in your brokerage business, labour issues and human rights

What is your SCR strategies?

Governance

Does Brokers think about governance ethics and accountability

Would you be ready if the regulatory requirements are extended to you going forward?
Can the association start some initiatives related to ESG- Training of members, net zero initiatives, CRS initiatives, etc…

6. FUTURES- INTERNATIONAL PRINCIPLES TO ADOPT

- Responsible Banking Principles-

- Responsible Banker-

- Principles for sustainable Insurance-

- Responsible Insurer

- Core Principles for sustainable Finance

- Responsible Lender-

- Principles for Responsible Investments

- Responsible Investor

Thank you !